

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 58048

**PUBLIC UTILITY DISTRICT NO. 1 OF KITSAP COUNTY**

Kitsap County, Washington

January 1, 1994 Through December 31, 1995

Issue Date: March 7, 1997

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**PUBLIC UTILITY DISTRICT NO. 1 OF KITSAP COUNTY**  
**Kitsap County, Washington**  
**January 1, 1994 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With State  
Laws And Regulations**

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Board of Commissioners  
Public Utility District No. 1 of Kitsap County  
Poulsbo, Washington

We have audited the financial statements, as listed in the table of contents, of Public Utility District No. 1 of Kitsap County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated October 28, 1996.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the district's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

Material instances of noncompliance are (1) failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or (2) considerable failure to comply with the laws and the *Constitution of the State of Washington*, the district's ordinances and orders, and the requirements of the State Auditor's Office. The results of our tests of compliance disclosed an instance of noncompliance that may materially affect the financial statements, the effects of which have not been corrected in the district's financial statements. The material instance of noncompliance noted during our audit is disclosed in the accompanying Schedule of Findings.

We considered the instance of noncompliance in forming our opinion on whether the district's financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and the statutory provisions described in paragraph two of this report. This report does not affect our report dated October 28, 1996, on those financial statements.

Except for the material instance of noncompliance disclosed in the Schedule of Findings accompanying this report, the results of our tests of compliance indicate that, with respect to the items tested, the district complied, in all material respects, with the provisions referred to in the second and third paragraphs of this report, and with respect to items not tested, nothing came to our attention that

caused us to believe that the district had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 28, 1996

PUBLIC UTILITY DISTRICT NO. 1 OF KITSAP COUNTY  
Kitsap County, Washington  
January 1, 1994 Through December 31, 1995

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Schedule Of Findings

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1. The 1994 And 1995 Financial Statements Were Not Fairly Presented

The 1994 and 1995 financial statements were not fairly presented due to the omission of the 1994 Statement of Cash Flows and material errors noted in 1994 and 1995 expenditures and in 1995 cash, long-term debt, and accumulated depreciation.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor

. . . .

When financial statements contain material errors, the taxpayers do not have access to accurate financial information. In addition, the statistics maintained by the State Auditor's Office are not meaningful and the costs of the audit may increase.

The district has a history of poor financial accounting and reporting, which is a result of the rapid growth of the district, compounded by a turnover in accountants and computer systems. The 1994 and 1995 statements are a substantial improvement over prior years due to increased attention and new staff. However, material errors were again noted and the financial statements are not fairly presented.

We recommend the district continue to improve its financial reporting.

Auditee's Response

*In the last six years (short period of time historically) the District has indeed experienced rapid growth and its computer system and staff are attempting to achieve the level of sophistication necessary for the complexities of being more than either just an enterprise or taxing district.*

*The Board of Commissioners and management appreciate the fact that you recognize that substantial improvement has been made in the financial statements over prior years and again, we hope you realize that we have made a good faith effort to correct the mistakes that were identified.*

*We do indeed intend to continue improving our financial reporting and we thank the auditor's office for its continued assistance and guidance.*

### Auditor's Concluding Remarks

We appreciate the district officials' commitment to resolve the issues noted in our findings. Based on their response, the recommendations are being addressed and we will review these areas again in our next audit of the district.

We wish to thank the district's personnel and management for their cooperation and assistance during the audit.

PUBLIC UTILITY DISTRICT NO. 1 OF KITSAP COUNTY  
Kitsap County, Washington  
January 1, 1994 Through December 31, 1995

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Status Of Prior Findings

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The finding contained in the prior audit report was resolved as follows:

1. The District Should Prepare Annual Financial Statements In Accordance With Prescribed Standards

*Resolution: This condition has been resolved. The district prepared its financial statements in the format prescribed by the State Auditor's Office for the period audited.*

2. The District Should Reconcile Cash With The County Treasurer

*Resolution: This condition has been resolved. The district reconciled the ending cash balances from their general ledger system to the county treasurer for the period audited.*

**PUBLIC UTILITY DISTRICT NO. 1 OF KITSAP COUNTY**  
**Kitsap County, Washington**  
**January 1, 1994 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements**

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Board of Commissioners  
Public Utility District No. 1 of Kitsap County  
Poulsbo, Washington

We have audited the accompanying financial statements of Public Utility District No. 1 of Kitsap County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Public Utility District No. 1 of Kitsap County did not prepare a Statement of Cash Flows for 1994. In addition, we noted material errors in expenses reported on both the 1994 and 1995 financial statements and in cash, long-term debt, and accumulated depreciation reported on the 1995 financial statements. As a result of these errors, cash was overstated on the 1995 balance sheet by \$642,951, long-term debt was overstated by \$702,589 and understated by \$710,000, and deferred credits were overstated by \$710,000. The effects of the omission of the Statement of Cash Flows and the misstatements of expenses and accumulated depreciation were not determinable.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the financial position of Public Utility District No. 1 of Kitsap County at December 31, 1995 and 1994, and the results of its operations and cash flows for the fiscal years then ended, in conformity with generally accepted accounting principles.

Brian Sonntag  
State Auditor

October 28, 1996